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and
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"Food Marking: Can 'Voluntary' Government Restrictions Improve Children's Health?"

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Summary

The Interagency Working Group (IWG) on Food Marketed to Children is developing guidelines with the dual "goal of improving children's diets and addressing the high rates of childhood obesity."

- The proposed guidelines are voluntary, and thus there is no automatic reduction in advertising as a result of the guidelines.
- If companies choose to adopt the voluntary IWG guidelines, a primary change that could result is a *shift* in consumption across food categories; for example, from foods with high levels of fats, sodium, and sugars, toward foods lower in those nutrients.
  - This shift—in either advertising dollars and/or sales—could occur across product lines *within a single firm*, or across firms *within the industry*.
  - It is also possible that advertising dollars would be shifted from marketing to children, towards advertising on other products and/or towards advertising on the same products to other people, such as parents.
- Over time we can expect firms and the industry to respond to the guidelines by establishing new, healthier products and product lines that could be marketed to kids.
  - A surge in advertising might result as companies seek to expand product recognition for new product lines among kids and parents.
- Industry advertising is often designed to compete with other brands, transferring market share across companies, but resulting in little to no change in final sales.
- A 2008 analysis of food marketing by the Federal Trade Commission found that in 2006, $1.6 billion was spent by 44 large companies on food and beverage marketing to children and adolescents aged 2-17.

    - This represented just 17% of the companies' marketing budget *for just the brands that are, in part, marketed to kids*. The share of the overall marketing budget within those firms—which includes marketing for other products that are not marketed to kids—would be significantly smaller.
    - The 17% figure is for advertising on *all* foods marketed to kids, not just those that fail to meet the IWG criteria.
    - The final impact on *overall* food and beverage advertising would likely be far smaller than this amount.
- Even if it were the case that the advertising reduction led to fewer sales in the food and beverage industry, consumers would simply shift some or all of those expenditures to products in other industries.

A realistic assessment is that the proposed guidelines would have, at most, a modest impact on overall advertising levels, and an even more modest impact on industry-level sales and employment. Even if there were a job impact at the industry level, then shifts to other industries would yield job increases that would offset some or all of the impact on the food and beverage industry.

Remarks as Prepared for Delivery

Thank you for the invitation to speak with you today about this important topic.

My organization, the Economic Policy Institute, has been a leading nongovernmental voice emphasizing the need for more jobs in this weak economy. As an economist, I am very concerned about the impact of high and prolonged levels of unemployment on families and on the long-term health of the economy.

As you know, the Interagency Working Group on Food Marketed to Children is considering a set of voluntary guidelines to improve the nutrition quality of foods marketed to children.

With the current economic weakness in the labor market, it is important to assess the economic and employment effects of the voluntary marketing guidelines.

Let me briefly outline the prime impact of the proposed guidelines on employment. In my view, to the extent that companies follow the guidelines, the impact would be primarily a shift in advertising and a shift in product sales, not necessarily a reduction overall in these industries.

First, to restate the obvious, the IWG proposed guidelines are voluntary, and thus there is no automatic reduction in advertising as a result of the guidelines.

Second, if companies do choose to adopt the voluntary IWG guidelines, a primary change that would result is a **shift** in consumption across food categories; for example, from foods with high levels of fats, sodium, and sugars, toward foods lower in those nutrients.

This shift—in either advertising dollars and/or sales—could occur across product lines within a single firm, or across firms within the industry. There might not be a net reduction in advertising, in sales, or in employment even within the industry.

It is also possible that advertising dollars would be shifted from marketing to children, towards advertising on other products and/or to advertising on the same products to other people, such as parents.

Over time we can expect firms and the industry to respond to the guidelines by establishing new, healthier products and product lines that could be then marketed to kids.

In fact, a *surge* in advertising might result as companies seek to expand product recognition for new product lines among kids and parents. For example, as the FDA was considering adopting regulations to require trans-fat labeling, many companies reformulated products to remove trans-fat and invested in marketing those reformulated products.

For example, Frito-Lay launched an advertising campaign in 2003 placing print ads in top-25 newspapers announcing “zero grams of trans-fat” in their products.

Further, industry advertising is often designed to compete with other brands, transferring market share across companies, but resulting in little to no change in final industry sales.

A report by IHS Consulting has been cited widely that claims to show that the guidelines could result in a 20% reduction in ad sales and a loss of 74,000 jobs. My submitted testimony includes a more detailed critique, but let me summarize that the *assumed* 20% reduction in ad sales would seem to be a significantly exaggerated response given existing advertising patterns, the voluntary nature of the guidelines, and the likely shifting of ad dollars to other products or to targeting other age groups.[1]

Even if it were the case that an advertising reduction led to fewer sales in the food and beverage industry, consumers would simply shift some or all of those expenditures to products in other industries.

A realistic assessment is that the proposed guidelines would have, at most, a modest impact on overall advertising levels, and an even more modest impact on industry-level sales and employment. Even if there were a job impact at the industry level, then shifts to other industries would yield job increases that would offset some or all of the impact on the food and beverage industry.

As I said earlier, as an economist, I am a concerned with the health of the economy.

However, as a father, I am primarily concerned with the health of my two daughters. I am well aware of the challenges of getting a 3 year old to eat healthy - in my house fruit and vegetables too often means ketchup and french fries.

I realize that my girls will see thousands of ads while they grow up, but I would much prefer that the advertising that they do see, be for healthier products.

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[1] How reasonable is the assumed 20% reduction? Consider a 2008 analysis of food marketing by the Federal Trade Commission, which found that in 2006, $1.6 billion was spent by 44 large companies on food and beverage marketing to children and adolescents aged 2-17. This represented just 17% of the companies' marketing budget *for just the brands that are, in part, marketed to kids*. The share of the overall marketing budget within those firms—which includes marketing for other products that are not marketed to kids—would be significantly smaller. The 17% figure is for advertising on *all* foods marketed to kids, not just those that fail to meet the IWG criteria. Over time, as products and product lines change, we can expect the mix of products to move toward healthier foods—with a resulting reallocation of advertising toward marketing healthier products.

As an economist, I believe that the IWG guidelines would primarily result in a shift of ad dollars towards healthier products, and not a reduction in overall industry advertising, sales, or jobs.

Thank you.

Supplemental: Text of Economic Policy Institute Issue Brief #318

Assessing the job impact of guidelines for marketing food and beverage products to children

by John S. Irons, Ph.D.
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October 11, 2011

The Interagency Working Group on Food Marketed to Children—consisting of the Federal Trade Commission, the Food and Drug Administration, the U.S. Department of Agriculture, and the Centers for Disease Control and Prevention—is proposing a set of voluntary guidelines to improve the nutrition quality of foods marketed to children.

A recent report by IHS Consulting (2011) has suggested that tens of thousands of jobs would be lost due to lower food and beverage advertising. The report analyzed a hypothetical 20% reduction in food and beverage advertising, finding the drop would "…result in a decrease in the total annual sales of $28.3 billion and eliminate 74,000 jobs in 2011."

With the current weakness in the labor market, it is laudable to assess the economic and employment effects of the voluntary marketing guidelines . However, the IHS report rests on shaky, unsupported assumptions and misses key considerations necessary to provide an adequate overall assessment of the job impact of the proposed guidelines.

In particular:

- The analysis only passingly refers to the main effect of any reduction in advertising for unhealthy foods (and consequently sales of such foods), which would be a shift in advertising funds and sales to other types of presumably healthier food and beverages either within firms or across firms within the industry. If the analysis had fully taken these shifts into account, the employment impacts would have been dramatically smaller, and potentially zero.
- The IHS report simply assumes an implausibly high 20% reduction in all food and beverage advertising, a figure that appears to be far higher than the amount of food and beverage advertising now dedicated to the targeted products.
- Even if a significant reduction did occur in food and beverage advertising and/or sales, there would be a shift to other industries, at least partially offsetting any job loss within the food and beverage industry.

The net result is an unreliable, grossly exaggerated measure of the job impact of the proposed guidelines.

Assessing the potential impact

The Interagency Working Group (IWG 2011) is developing guidelines with the dual "goal of improving children's diets and addressing the high rates of childhood obesity." The recommendations are "designed to encourage children, through advertising and marketing, to choose foods that make a meaningful contribution to a healthful diet (Principle A) and minimize consumption of foods with significant amounts of nutrients that could have a negative impact on health or weight—specifically, sodium, saturated fat, trans fat, and added sugars (Principle B)."

If companies choose to adopt the voluntary IWG guidelines, a primary change that could result is a shift in consumption across food categories; for example, a shift from foods with high levels of fats, sodium, and sugars, toward foods lower in those problem nutrients. This shift—in either advertising dollars and/or sales—could occur across product lines within a single firm, or across firms within the industry. In either case, there might not be a net reduction in advertising, in sales, or in employment at either the firm level or across the industry.

Furthermore, over time we can expect firms and the industry to respond to the guidelines by establishing new, healthier products and product lines that could be marketed to kids. In fact, a *surge* in advertising might result as companies seek to expand product recognition for new product lines among kids and parents. For example, as the FDA was considering and adopting regulations to require trans-fat labeling, many companies reformulated products to remove trans-fat and invested in marketing those reformulated products.[2]

Finally, industry advertising is often designed to compete with other brands. The IHS report notes that "most of the advertising simply transfers market share from one company to another." A reduction in advertising to children simultaneously by competing brands could thus result in little to no change in final sales.

Despite good theoretical reasons to expect little or no change in food and beverage industry advertising or sales, IHS models the impact of a hypothetical 20% decline in advertising on the food and beverage industry.

Is a 20% decline in ad sales plausible?

The IHS report analyzes a "potential 20% reduction" in advertising expenses. The IHS report provides no justification for why 20% is a reasonable expectation, either in theory or empirically. Is this a reasonable scenario?

First, it should be noted that the proposed guidelines are *voluntary*, and thus there is no automatic reduction in advertising as a result of the guidelines. Companies might react by shifting or reducing ad spending, but there is no requirement they do so.

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[2] For example, Frito-Lay launched an advertising campaign in 2003 placing print ads in top-25 newspapers announcing "zero grams of trans-fat" in their products. See the Frito-Lay Press Release from September 23, 2003 titled "Frito-Lay Launches Print Ad Campaign Declaring America's Favorite Snacks Have Zero Trans Fats", at http://www.fritolay.com/about-us/press-release-20030923.html

Second, it is likely that advertising dollars would be shifted from marketing to children to advertising on other products and/or to advertising on the same products to other people, such as parents. The expected effect on overall advertising and industry sales should thus be small, since ad spending would be shifted to whatever use a firm determines would have the next largest impact.

Third, an analysis of food marketing by the Federal Trade Commission (2008) found that in 2006, $1.6 billion was spent by 44 large companies on food and beverage marketing to children and adolescents aged 2-17.[3] While large in total dollars, this represented just 17% of the companies' marketing budget *for just the brands that are, in part, marketed to kids*.[4] The share of the *overall* marketing budget within those firms—which includes marketing for other products that are not marketed to kids—would be significantly smaller. Thus the share of marketing on food and beverage industry *overall* would be significantly smaller than the 20% assumed in the report.

Furthermore, the 17% figure is for advertising on *all* foods marketed to kids, not just those that fail to meet the IWG criteria.[5] As noted above, over time, as products and product lines change, we can expect the mix of products to move toward healthier foods—with a resulting reallocation of advertising, within the 17% of expenditures, toward marketing healthier products.

Thus, assuming a 20% reduction would seem to be a significantly exaggerated response given existing advertising patterns, the voluntary nature of the guidelines, and the likely shifting of ad dollars to other products or to targeting other age groups.

Macroeconomic impact: shifts across industries

The report also suggests (with no supporting information) that "every advertising dollar stimulates $5 in additional industry sales." The assumed 20% drop in advertising would, according to the report, lead to a drop of over $10 billion in sales (as well as other, large ripple effects), and a resulting loss in industry jobs. But, as noted above, a reduction in advertising expenditures does not necessarily translate into lower sales, since most of the advertising is aimed at shifting within-industry market share between companies. However, in practice there could still be some impact on industry-wide demand.

Even if it were the case that the advertising reduction led to fewer sales in the food and beverage industry, consumers would simply shift some or all of those expenditures to products in other industries. The net economy-wide employment impact would depend on the size of the shift, the domestic production content, and the relative labor intensity of the industries that would see the resulting

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[3] If toys included in childrens' meals were included, the food marketing total would be about $2 billion.

[4] The FTC (2008) report states (emphasis added): "For those food and beverage brands promoted to children and adolescents, the overall expenditures for promotional activities directed to all audiences, including additional adult oriented marketing, was more than $9.6 billion. Therefore, the expenditures directed to those between the ages of 2 and 17 represented 17% of the total 2006 marketing budget ***for those brands***."

[5] It does appear that a large share of advertising to children promotes products that do not meet various health criteria. See for example, Center for Science in the Public Interest (2011).

increase in sales.[6] There might not be any job loss economy-wide, and there could even be job increases as the food industry develops and markets healthier products for children.

In short, the headline "job-loss" number should *not* be interpreted as an economy-wide impact, since there would be job creation elsewhere in the economy.

Conclusion

In these economic times people are understandably concerned about the economic effects, and especially the employment effects, of any recommendation. Still, a full analysis of these effects must use reasonable assumptions to derive impacts on relevant industries and the economy as a whole. Unfortunately the IHS report did not use reasonable assumptions. It assumes an implausibly high level of impact on a particular sector and then fails to examine the offsetting effects in other parts of the economy.

A more realistic assessment is that the proposed guidelines would have, at most, a modest impact on overall advertising levels, and an even more modest impact on industry-level sales and employment. Even if there were a job impact at the industry level, then shifts to other industries would yield job increases that would offset some or all of the impact on the food and beverage industry.

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[6] The labor intensity of food manufacturing is generally similar to other industries.